LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7405 **DATE PREPARED:** Dec 31, 2000
BILL NUMBER: HB 1720 **BILL AMENDED:**

SUBJECT: Reassessment Phase-in.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill phases in the changes in assessed value due to a general reassessment over a three-year period.

Effective Date: July 1, 2001.

Explanation of State Expenditures: The State pays Homestead credits based on property tax billings for owner-occupied residential property. The Homestead Credit is equal to 10% of a homeowner's property tax liability through 2001 and 4% of the liability beginning in 2002. Reassessment shifts the tax burden from personal property to real property (in particular residential), thereby increasing the state's liability for Homestead credits. Phasing in the reassessment changes would also mean that the state's increased homestead liability would be phased in over the three-year period. Homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any change in Homestead credit expenditures would ultimately affect the state General Fund.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: The state of Indiana is currently subject to an Indiana Tax Court order to complete the next general reassessment so that it is effective for the "2002 payable 2003" property tax year. This bill calls for the changes in the assessed value (AV) attributable to the upcoming reassessment to be phased in at a rate of 1/3 per year over three years.

Personal property (depreciable assets and inventory) is reported each year on forms prescribed by the State Tax Board. These forms, in effect, reassess personal property each year. Since real property is not reassessed each year, and its value generally increases, there is a gradual shift of the property tax burden each year from real estate taxpayers to personal property taxpayers until reassessment. Reassessment usually shifts the burden back from personal property to real property. Also, the basis for real property valuation for the next reassessment will be different from past assessment years. There is the potential for large property tax shifts from personal property to real property, depending on the final form of the reassessment rules.

The phase-in of the changes in AV could help decrease the effects of the reassessment "shock" that many real property taxpayers experience after a reassessment. At the end of the three-year phase-in period, each taxpayer's AV would be equal to 100% of the newly reassessed value.

Local units would receive the same amount of revenue regardless of when the reassessment changes take effect. The only impact to local units would be to their bonding authority. Local units are bound by a constitutional 2% of AV debt limit. Phasing in the reassessment changes would mean that local units would not receive their entire increase in bonding authority immediately after reassessment.

State Agencies Affected: State Board of Tax Commissioners.

Local Agencies Affected: County Auditors; All civil taxing units and school corporations.

Information Sources: